

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ULUNDI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ulundi Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No.12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered in the preparation of the 2009-2010 financial statements of Ulundi Municipality at, and for the year ended 30 June 2009.

Unauthorised expenditure

10. As disclosed in note 37 to the financial statements, unauthorised expenditure amounting to R8,010 million was incurred, as a result of the municipality overspending its budget, relating mainly to employee costs.

Material losses

11. As disclosed in note 44 to the financial statements, material losses amounting to R4,661 million, was incurred as a result of electricity distribution losses.

Going concern

12. As disclosed in note 48 to the financial statements, the Ulundi Municipality's unspent conditional grants of R9,421 million and consumer deposits of R1,259 million were not cash backed. These conditions, along with other matters as set forth in note 48, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and

regulations ((Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)) and financial management (internal control).

Predetermined objectives

16. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

17. The performance audit committee did not review Ulundi Municipality's performance management system and report on predetermined objectives and make recommendations in this regard to council. Furthermore, the audit committee's report was not submitted to council regarding the review of performance and measurements at least twice during the financial year, as required by sections 40 and 41(e) of the MSA.

Internal auditing of performance measurements

18. The Ulundi Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(a) of the MSA and Regulation 14(1)(a) of the Municipal Planning and Performance Management Regulations of 2001.

Reliability of reported performance information

19. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported predetermined objectives be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported predetermined objectives.

The following audit findings relate to the above criteria:

Incomplete reporting on all predetermined objectives in the annual report

20. The actual achievements with regard to all planned indicators and targets specified in the integrated development plan for the year under review for the Technical Services directorate were not reported on, in the annual performance plan submitted to audit.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

The audit committee did not function properly

21. The audit committee did not substantially fulfil its responsibilities during the year under review, as required by section 166(2)(a) of the MFMA.

The financial statements were not prepared in accordance with MFMA

22. A fraud prevention and disaster recovery plan had not been approved and implemented, as required by section 62(1)(c)(i) of the MFMA.
23. The municipality had to make material adjustments to the annual financial statements submitted for audit on 31 August 2010. These adjustments constitute non-compliance with sections 122(1) to 125 of the MFMA.

INTERNAL CONTROL

24. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations (MSA and MFMA), but not for the purpose of expressing an opinion on the effectiveness of internal control.
25. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives as well as the findings on compliance with laws and regulations.

Leadership

26. Leadership did not exercise effective oversight responsibility over the reporting on predetermined objectives as well as laws and regulations.

Financial and performance management

27. Internal control deficiencies were not identified and communicated in a timely manner to allow for corrective action to be taken.

Governance

28. Management did not adopt, approve and implement a fraud prevention and disaster recovery plan to negate weaknesses in internal control.

Pietermaritzburg

30 November 2010



Auditing to build public confidence